



April 5, 2009

Ms. Mary Rupp  
Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

Re: Advanced Notice of Proposed Rulemaking to 12 CFR Part 704

Dear Ms. Rupp:

I would like to take this opportunity to comment on the recently issued Advance Notice of Proposed Rulemaking (ANPR) to 12 CFR Part 704 on behalf of UT Federal Credit Union in Knoxville, Tennessee.

We have been long time supporters of the corporate credit union network as we believe corporate credit unions play a vital role in our credit union network. Corporate credit unions offer a broad number of products and services to natural person credit unions that we could not provide for ourselves or would have to pay more to access outside the not-for-profit credit union family.

Among the services credit unions depend upon their corporates for are liquidity, investment services, payment systems and clearinghouse services. If there are to be significant actions taken regarding the corporate system as we know it today, we appreciate the fact that the NCUA has given this opportunity for natural person credit unions to provide our views.

We fully recognize that the losses at US Central and NCUA's actions to strengthen the corporate system through the NCUSIF bring about the need to carefully evaluate the effectiveness of the present corporate network structure and are pleased to offer the following comments for NCUA's consideration.

### **Payment Systems**

We believe that it is not necessary to isolate payment system services from other services in order to separate risks. Separating payment services from other services may add additional costs and inefficiencies to a corporate and its members without a commensurate reduction in risk. However, we do support a review of payment services with a goal of generating efficiencies through further consolidation.

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## **Liquidity**

Liquidity has always been the core service of the corporate system; however, it is evident in today's marketplace that liquidity is not the only valuable service provided by corporate credit unions. We commend the agency for any actions that will serve to strengthen the ability of corporate credit unions to meet the liquidity needs of natural person credit unions, but we feel it would be a mistake to do so by weakening the ability of a corporate credit union to offer other types of products and services as well.

If a corporate credit union cannot be competitive in other products and services valuable to its credit union members, then it is unlikely that it can establish the relationships necessary to be the liquidity source that credit unions need. We strongly encourage NCUA to continue to allow corporate credit unions to offer other products and services that they can do safely and soundly to the benefit of the credit unions who are their members.

## **Field of Membership Issues**

National fields of membership for corporate credit unions have been good for natural person credit unions. This policy has given us both competitive choices and some valuable mitigation of concentration risk. Concentration risk is enhanced for credit unions if they do not have the option of more than one corporate.

We feel it would be a mistake to restrict the ability of a corporate credit union to serve more than just the credit unions in a single state or region. Not only would it eliminate choice as mentioned above, it works against the natural person credit union's ability to spread our business around to better benefit our balance sheets if we so desire.

There is little doubt that consolidation within the corporate credit union system is likely to accelerate in the next few years. Rather than relegating each corporate to a field of membership limited to a certain geographic area, we feel it is far more important that the corporate credit unions we have to be safe and sound.

## **Expanded Investment Authority**

Expanded investment authority for corporate credit unions should not be removed because, as retail corporates, they must be able to generate a sufficient return to meet their credit union member needs and to continue to strengthen their own financial position. To be forced to another entity for the liquidity support and services that a corporate credit union provides does not insure that our natural person credit unions will be better off. Bear Stearns and Lehman Brothers could have provided some of the services provided by our corporate credit unions, but we hardly believe our credit union would have been better served to be considered among the creditors they now owe.

Regarding the question of whether corporate credit unions should be required to re-apply for their expanded authorities from time to time, we do not disagree. It would likely be sound regulatory practice for NCUA to stipulate that expanded investment authorities have a shelf life that can only be extended once proof is established that the management expertise is still available to insure a strong and viable asset-liability management program.

### **Asset Liability Management**

Asset liability management is the most important role of any financial institution, including corporate credit unions, and is the single most critical component to effective risk management. We believe NCUA and corporate credit unions would benefit if ALM guidelines were established that included modeling and stress testing for both interest rate risk and credit risk, however, recognizing that different tests are appropriate for different situations. Our preference would be for corporate credit unions that same as it would be for natural person credit unions in the area of asset liability management. Guidelines are preferable to regulation because things change often in this arena.

### **Role of Corporate Credit Unions in the Overall Credit Union Network**

We see great value in a vibrant, sound corporate system. The corporate credit unions have a history of offering important products and services that natural person credit unions need and would rather not be required to go outside the credit union network to receive. Our view would be that the majority of credit unions consider the corporate system to be a necessary player in the credit union industry for vital services such as liquidity, payment systems and investments, and that a sizable number of credit unions of all asset sizes (but particularly smaller and moderate size credit unions) rely heavily on their individual corporate credit union(s).

Based upon our this perspective of the corporate credit unions and their value, we would ask that NCUA show due diligence and caution in any restructuring of the corporate system that will have a negative impact on the ability of natural person credit unions to fulfill their mission or would force them outside of the credit union network for basic liquidity, payment systems and investment services.

### **Two-Tiered Structure**

Recent losses at US Central have created the need to seriously look at how effectively US Central has played its traditional role in support of the corporate credit unions and the natural person credit union community. We support a careful and well thought examination of ways to make US Central more effective and to avoid the types of losses that natural person credit unions are now being required to recapitalize the share insurance fund to cover.

However, US Central has been over the course of decades more than just a source of balance sheet losses that many see it as today. US Central, as the sole wholesale

corporate credit union, has provided essential services to its member corporate credit unions. Among these are investment, liquidity, and cash management products and services, risk management and analytic capabilities, settlement, funds transfer and payment services. We do not believe that the current situation justifies the complete elimination of a two-tiered system that has served the industry quite well for a long time.

We cannot say that some structural changes may not be justified at US Central and within the corporate credit union system as a whole. The current losses, economy and marketplace considerations may eventually bring about a corporate credit union system with fewer institutions. US Central may need to be re-evaluated as to which of its services are crucial to the corporate credit unions and which ones can be provided by the individual corporate credit unions themselves. But we have the same concerns about forcing corporate credit unions to go outside the system for basic support services that could be provided within the system as we do with forcing natural person credit unions to go outside the corporate system. Despite our current situation, we have confidence in credit union regulators being the overseers of the corporate credit unions we do business with, rather than being forced to do business with brokerage houses and banks that either do not understand the credit union system or are downright antagonistic towards it.

If the agency determines that there is sufficient value in eliminating the necessity of a wholesale corporate credit union like US Central, we urge you to ensure that whatever structure ultimately emerges through this rulemaking process should result in a system that is competition based and allows natural person credit unions the choice of “inside the system” service providers to meet our needs.

### **Permissible Investments**

There is no question that recent balance sheet losses have caused some in the credit union industry to doubt many of the investment decisions made by some corporate credit unions in the past several years. In fact, the investments of many financial institutions and brokerage houses would be subject to doubt at this point. Very few in the financial industry have been immune from the current mortgage meltdown and its impact on mortgage backed securities. However, we feel it is important that NCUA not overreact by greatly restricting corporate investment powers.

Certain investment authorities perhaps need to be reviewed from position of the safety and soundness of the investments being authorized. But we strongly feel that it is not in the best interests of natural person credit unions for the investment authority of well managed and fully qualified corporate credit unions to be unduly restricted. A corporate credit union should be able to fully demonstrate the competence and ability necessary to fully manage sophisticated investments. This is essential, but we would not be supportive of any proposal that would restrict the ability of a corporate credit union to better serve natural person credit unions through the income generated through both their service offerings and the investments they made which are authorized in current law and regulation.

## **Credit Risk Management**

We feel that it is most important for all types of risk in a corporate portfolio to be diligently managed, including credit risk. There has been much more focus on interest rate risk than credit risk in the regulation of corporate credit unions. This needs to be better balanced as the current situation clearly requires.

## **Ratings and Rating Agencies**

The dependability of investment ratings and rating agencies has certainly come into question with recent events in the financial industry. However, the marketplace requires someone to be considered an authority in this arena or no investments will ever take place. It appears that ratings and rating agencies will always be a part of the equation and should. The Nationally Recognized Statistical Rating Organizations (NRSROs) have credibility that, although the present circumstances have comprised it somewhat, is the best available in the marketplace today. Therefore, we are supportive of continued use of ratings and rating agencies, although there may be some value in requiring multiple ratings when available and cost effective.

## **Corporate Governance**

It is our view that an experienced and diversified board of directors is vital to a corporate credit union. A corporate's board is generally comprised of CEO's and other high-ranking officials of natural person credit unions fully experienced in matters affecting financial institutions and markets. Accordingly, we believe allowing the members of the corporates to elect their directors without mandated regulatory qualifications remains the preferable method for selecting the board.

We support the current make-up of directors with direct ties to the credit union movement, while acknowledging that an outside director(s) can provide leadership from a different perspective and new ideas that may benefit a corporate. Similarly, we recognize there are both potential benefits and weaknesses in establishing term limits for directors. Accordingly, we support the members' preferences regarding outside directors and term limits.

Regarding compensation of directors, we have no opposition to this concept provided that such compensation is provided to all directors at a corporate credit union and the decision to compensate directors is left to the corporate credit union and not a regulatory mandate. However, we do support regulation to require that a wholesale corporate credit union such as US Central should have at least one third of its board members from natural person credit unions that are the ultimate users of the corporate system and have become the financial backstop for the corporate system through the share insurance fund which is capitalized with deposits from natural person credit unions.

As it relates to compensation of senior management at corporate credit unions, we do not feel that it is necessary that these salaries should be disclosed publicly. It does not appear that the current losses at US Central or any of the corporate credit unions has stemmed from extravagant compensation or lavish fringe benefits for the managers. We see no reason for management compensation at not-for-profit, member-owned financial cooperatives to be publicly disclosed. This should be applicable for natural person credit unions and corporate credit unions as well.

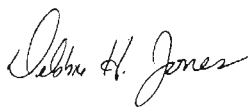
### **Corporate Capital**

We support NCUA's efforts on behalf of capital modernization for natural person credit unions and feel that the agency should implement a risk weighted capital structure for corporate credit unions. This will allow the amount of capital required to be based upon the risk on the corporate balance sheets. With membership capital and paid-in capital availability, a corporate credit union with higher capital requirements because of the risk on their balance sheet will be required to go to the natural person credit union marketplace and sell the advantages of their corporate credit union. If they cannot raise the capital necessary to satisfy the risk weighted calculations for the risk on their balance sheet, they will have to lower the risk. If the credit union community is willing to invest in the corporate credit union's strategic goals relative to the risk on their balance sheet, the corporate will be able to raise the necessary capital to continue with its current balance sheet profile. This just makes sense.

Corporate credit unions are one of few regulated financial institutions that are not subject to risk weighted capital standards. Natural person credit unions are another. A one-size-fits-all approach to capital is outdated and subject to abuse. We encourage NCUA to identify those corporate credit unions with higher risk profiles and require additional capital of them, from whatever source – retained earnings, membership shares or paid-in capital. Those with lower risk profiles should have less capital required. We fail to see how this is not good regulatory practice, and we encourage NCUA to implement a risk weighted capital system for corporate credit unions. We likewise encourage NCUA to aggressively push for congressional authorization to apply the same type of risk weighted capital system for natural person credit unions. The same principles apply to both.

Thank you for the opportunity to comment on this advance notice of proposed rulemaking. Please do not hesitate to contact us if we can be a source of additional information about this comment letter or any other matter.

Sincerely,

A handwritten signature in cursive script, reading "Debbie H. Jones".

Debbie H. Jones, CPA  
President and Chief Executive Officer